

# Memorandum



## Financial Services

Date: December 4, 2007

To: Mayor and Council

From: Jerry Hart, Financial Services Manager (8505)

Subject: Financial Update

At the November 20<sup>th</sup> Finance, Economy and Veteran's Affairs committee meeting, Financial Services staff provided an update on the status of our fiscal year-to-date sales tax revenue collection. The update was based on the review of the October 2007 Tax Revenue Statistical Report (see attached). That report indicated that:

- Fiscal year-to-date General Fund sales tax revenue growth is at 2.9% over the same period a year ago. However, we have experienced a continuing decline in this growth rate since the beginning of the fiscal year.
- Actual year-to-date General Fund sales tax collection is approximately \$1.1 million short of budget expectations.
- Retail Sales tax revenue collection, which is 55% to 60% of overall sales tax collections, is down 5.5% when compared to the same period last year.
- In addition to the General Fund, the slow growth in sales tax revenue collection is also impacting the Transit Fund and the Performing Arts Fund.

The preliminary analysis of this information indicates that the city could see a shortfall in General Fund sales tax collection of \$3 to 5 million for the current fiscal year. Additionally, our share of state shared sales tax revenue will also be impacted for the current year. We originally anticipated current year General Fund excess revenue over expenditures of approximately \$6 million. This excess was to be set aside to help address our retiree health care (known as OPEB) funding challenge. Given the current economic trends, that anticipated surplus will not be realized. Financial Services staff is currently updating the five-year long range forecast that will provide a comprehensive assessment of our financial projections. That updated forecast will be provided to the Mayor and Council at the January 24<sup>th</sup> Issue Review Session.

When presented with similar challenges in fiscal year 2001/2002, city staff was directed to take a number of immediate steps to address the budgetary shortfall. Some of the steps included were a moratorium on increased payroll spending (i.e., new positions, increased benefits, position reclassifications, filling currently vacant positions, etc.), deferring equipment replacement, and reductions in travel related spending. The Ad Hoc Long Range Budget and Finance committee was also convened to assist in identifying various opportunities to address the shortfall. Staff believes a similar approach is necessary to address our current financial challenges.

At the request of the FEVA committee, this issue is being brought forward to the Council for further discussion. **Staff is seeking Council direction on steps to be taken to begin addressing the anticipated budgetary shortfall.**

# Memorandum

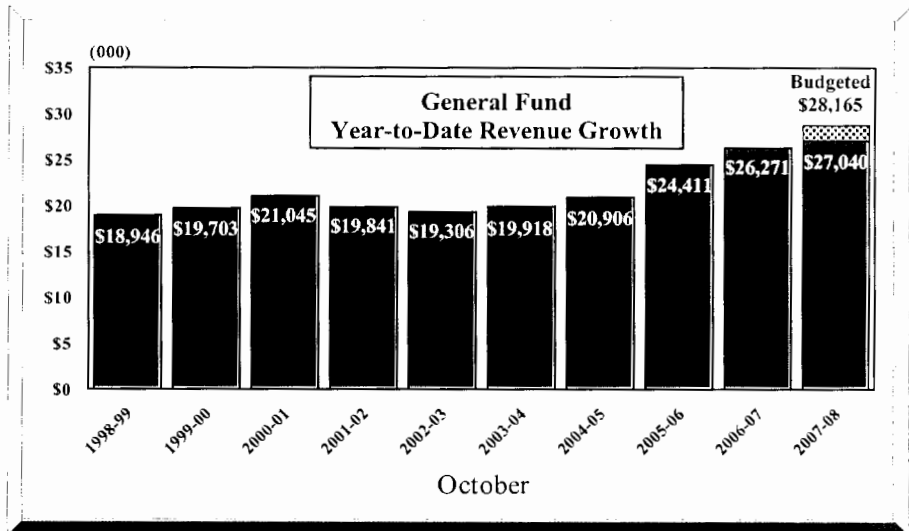


## Financial Services Department

Date: November 15, 2007  
To: Mayor and Council  
From: Cecilia Robles, Deputy Financial Services Manager (350-8881)  
Through: Jerry L. Hart, Financial Services Manager (350-8505)  
Subject: Tax Revenue Statistical Report – **October 2007**

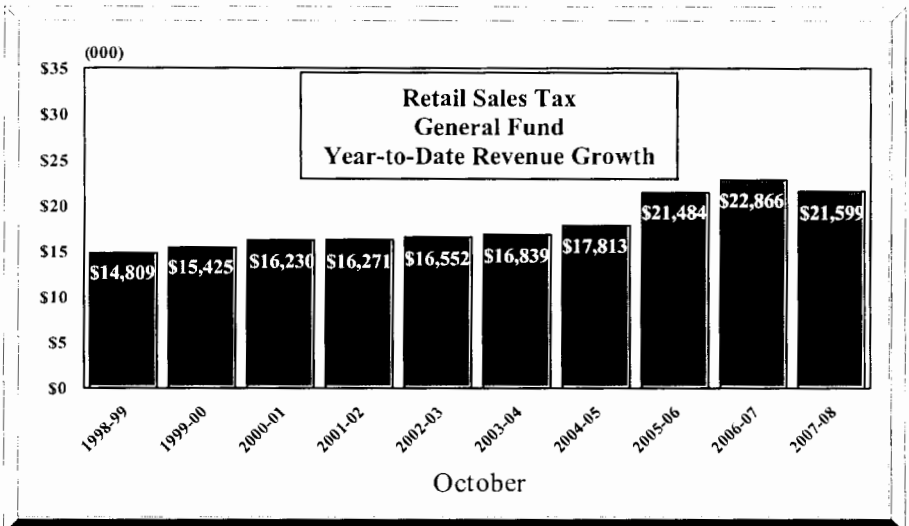
Attached is the Executive Summary of the Tax Revenue Statistical Report for October 2007 covering sales activity (through September) reported to our Tax and License Division in October.

The graph to the right depicts fiscal year-to-date (October) General Fund historical privilege tax revenue growth from FY 1998-99 through FY 2007-08. Privilege tax revenue collected for the first four months of FY 2007-08 year is up 2.9% over the same period in the prior fiscal year. In terms of actual dollars received (\$27 million), we are \$769,000 ahead of last fiscal year (\$26.3 million).



When compared to the prior year (October 2006), year-to-date retail sales tax revenues decreased by 5.5%. This revenue category, which constitutes approximately 55% to 60% of overall city privilege tax collections, is generating less revenue than during the same period last year. This trend is shown in the graph below.

Recent economic reports (especially regarding the impact of the slumping housing market, credit woes, and rising gas prices) do not call for a turnaround in the near term. Unless this trend turns positive it is becoming apparent that current year revenue collections will not meet the forecasted level. The extent of any potential revenue shortfall, as well as longer term implications, will be determined in the upcoming Long Range Financial Capacity Study.



If you have any questions or would like a copy of the complete Tax Revenue Statistical report, please contact me.

# **Executive Summary** **Year-to-Date Comparison - October**

	2004-05	Change	2005-06	Change	2006-07	Change	2007-08	Change
<b>Taxable Sales</b>								
Total Taxable Sales	1,847,263,000	6.6%	2,183,701,000	18.2%	2,391,923,000	9.5%	2,454,066,000	2.6%
Retail Taxable Sales	969,540,000	4.4%	1,198,531,000	23.6%	1,234,217,000	3.0%	1,184,756,000	-4.0%
<b>Tax Revenues by Funds</b>								
Privilege Tax - General Fund (1.2%)	20,906,000	5.0%	24,411,000	16.8%	26,271,000	7.6%	27,040,000	2.9%
Transit Tax Fund (.5%)	9,114,000	5.0%	10,764,000	18.1%	11,678,000	8.5%	11,614,000	-0.5%
Arts Tax Fund (.1%)	1,824,000	4.9%	2,152,000	18.0%	2,334,000	8.5%	2,376,000	1.8%
Privilege Tax - Rebates Funds	879,000	2.8%	1,284,000	46.1%	1,420,000	10.6%	1,367,000	-3.7%
Bed Tax Fund	519,000	2.0%	640,000	23.3%	706,000	10.3%	707,000	0.1%
Rio Salado PLT (1.2%) & Bed Tax (3.0%)	127,000	30.4%	185,000	45.7%	271,000	46.5%	417,000	53.9%
<b>Totals</b>	<b>33,369,000</b>	<b>4.9%</b>	<b>39,436,000</b>	<b>18.2%</b>	<b>42,680,000</b>	<b>8.2%</b>	<b>43,521,000</b>	<b>2.0%</b>

<b>Tax Revenues - Business Activities</b>								
Retail	17,813,000	5.8%	21,484,000	20.6%	22,866,000	6.4%	21,599,000	-5.5%
Rentals	5,209,000	-2.8%	5,825,000	11.8%	6,186,000	6.2%	6,979,000	12.8%
Utilities/Communication	3,331,000	-2.2%	3,685,000	10.6%	3,863,000	4.8%	4,271,000	10.6%
Restaurants	2,231,000	6.2%	2,465,000	10.5%	2,697,000	9.4%	2,809,000	4.2%
Contracting	2,535,000	28.3%	3,480,000	37.3%	4,534,000	30.3%	5,346,000	17.9%
Hotel/Motel	457,000	-1.7%	522,000	14.2%	572,000	9.6%	662,000	15.7%
Transient (Bed Tax)	556,000	3.0%	682,000	22.7%	747,000	9.5%	758,000	1.5%
Amusements	597,000	9.7%	659,000	10.4%	506,000	-23.2%	485,000	-4.2%
All Other	640,000	11.7%	634,000	-0.9%	709,000	11.8%	612,000	-13.7%
<b>Totals</b>	<b>33,369,000</b>	<b>4.9%</b>	<b>39,436,000</b>	<b>18.2%</b>	<b>42,680,000</b>	<b>8.2%</b>	<b>43,521,000</b>	<b>2.0%</b>

<b>Tax Revenues - Retail Activities Breakdown</b>								
Automotive	4,637,000	-0.1%	5,947,000	28.3%	5,639,000	-5.2%	4,799,000	-14.9%
Furniture/Equipment/Electronics	3,022,000	7.4%	4,839,000	60.1%	5,621,000	16.2%	5,060,000	-10.0%
Department Stores	2,854,000	4.0%	3,193,000	11.9%	3,324,000	4.1%	3,450,000	3.8%
Grocery Stores	2,042,000	-0.1%	2,123,000	4.0%	2,196,000	3.4%	2,247,000	2.3%
Drugs/Small Stores	1,713,000	0.6%	1,689,000	-1.4%	1,898,000	12.4%	1,840,000	-3.1%
Manufacturing Firms	1,487,000	40.3%	1,484,000	-0.2%	1,866,000	25.7%	1,351,000	-27.6%
Building Supply Stores	560,000	17.2%	690,000	23.2%	853,000	23.6%	910,000	6.7%
All Other Retail	1,498,000	10.7%	1,519,000	1.4%	1,469,000	-3.3%	1,942,000	32.2%
<b>Totals</b>	<b>17,813,000</b>	<b>5.8%</b>	<b>21,484,000</b>	<b>20.6%</b>	<b>22,866,000</b>	<b>6.4%</b>	<b>21,599,000</b>	<b>-5.5%</b>

<b>Tax Revenues - Business Districts</b>								
Elliot Corridor	5,435,000	6.4%	6,875,000	26.5%	6,798,000	-1.1%	6,110,000	-10.1%
Autoplex (included in Elliot Corridor)	2,750,000	4.4%	3,436,000	24.9%	3,228,000	-6.1%	2,781,000	-13.8%
Market Place							461,000	
Mills Mall	1,783,000	-3.8%	1,938,000	8.7%	2,108,000	8.8%	2,081,000	-1.3%
Downtown Tempe	900,000	-2.8%	1,042,000	15.8%	1,020,000	-2.1%	1,003,000	-1.7%
Apache Blvd.	681,000	13.9%	705,000	3.5%	819,000	16.2%	717,000	-12.5%
ASU Properties	530,000	19.6%	529,000	-0.2%	364,000	-31.2%	460,000	26.4%
Rio Salado (1.8% and 3.0% Bed Tax)	172,000	23.7%	257,000	49.4%	386,000	50.2%	599,000	55.2%
All Other Areas	23,868,000	3.9%	28,090,000	17.7%	31,185,000	11.0%	32,090,000	2.9%